

DECISION MEMORANDUM

TO: COMMISSIONER ANDERSON
COMMISSION HAMMOND
COMMISSIONER LODGE
COMMISSION SECRETARY
LEGAL

FROM: JOHAN E. KALALA-KASANDA
MICHAEL DUVAL

DATE: APRIL 30, 2024

RE: 2023 IDAHO TELEPHONE SERVICE ASSISTANCE PROGRAM (“ITSAP”) ANNUAL REPORT; CASE NO. GNR-T-24-03.

BACKGROUND

Each year the Administrator of the Idaho Telecommunications Service Assistance Program (“ITSAP”) files a report detailing the activities and status of the program during the previous year and submits a recommended budget for the next year. ITSAP provides eligible recipients with a reduction in the cost of residential basic local exchange telephone service. Funds for the program are raised through a surcharge on all end-user business, residential, and wireless access service lines not receiving the ITSAP credit. The Commission determines the uniform statewide monthly surcharge, and the Idaho Department of Health and Welfare (“IDHW”) administers the program and grants limited federal “lifeline” contributions to Idaho’s low-income customers. *Idaho Code* § 56-901(1). Idaho telephone companies assist in the form of a monthly discount of \$2.50 to eligible subscribers. *Idaho Code* § 56-902(1). To be eligible for ITSAP assistance, the applicant must be the head of a household and meet narrowly targeted eligibility criteria based solely on income or factors established by IDHW. *Idaho Code* § 56-903(1). To be eligible to receive reimbursement for providing low-income benefits (ITSAP and federal lifeline assistance), a company must be designated as an Eligible Telecommunications Carrier (“ETC”) by a state commission. 47 C.F.R. § 54.201(a)(1).

In 2012, IDHW introduced legislation amending *Idaho Code* § 56-902. The legislation reduced the amount of the monthly ITSAP assistance credit from \$3.50 to \$2.50. The ITSAP surcharge rate of \$0.01 per access line remained suspended during 2023, and no gross or net surcharge revenue was collected or deposited during the year ending December 31, 2023.

The ITSAP surcharge rate suspension was initially made by Commission Order No. 33732 in Case No. GNR-T-17-03, on March 29, 2017, with an effective date of May 1, 2017. This suspension was made subject to further annual budget review by the Commission.

THE 2023 ANNUAL REPORT

On February 15, 2024, the Commission received the annual ITSAP report from the Program Administrator, Ms. Kathleen Toohill. On April 10, 2024, Ms. Toohill submitted an amended report to the Commission following several discussions with Commission Staff.

In the amended report, as illustrated in Table No. 1 below, Ms. Toohill reported total local access lines in the amount of 1,574,726 compared to 1,745,735 reported in the prior year 2022, a decrease of 171,009 lines or approximately 10%. The reported wireless access lines amounted to 1,769,513 compared to 2,797,830 reported in the year 2022, a decrease of 1,028,317 lines or approximately 37%. The number of ITSAP credit recipients in 2023 was 93,325 compared to 80,604 reported in 2022, an increase of 12,721 or 16%. Ms. Toohill, also, reported unspecified access lines of 10,899. The gross surcharge revenue for the year was reported at \$0 since the surcharge rate is still suspended.

The quarterly average number of wireline access lines reported to the Administrator for residential lines was 225,638 compared to 244,079 in 2022; 168,043 compared to 192,355 for business lines; and the quarterly average number of wireless access lines reported was 442,378 compared to 699,458 in 2022. The Administrator explained that there is a lag in receiving reports for quarter 4 lines due to some companies reporting quarterly and monthly up to 2-3 months behind, leading to a rise in lines for Q1 of the subsequent year. Companies report monthly, quarterly, and even annually, hence the provision of quarterly averages. Additionally, these numbers are underreported due to a lack of wireless providers reporting line counts due to the surcharge suspension.

The average number of reported ITSAP recipients per month in 2023 was approximately 7,777 credit recipients per month or 93,325 per year. This is an increase from the 6,725 per month, or approximately 80,604 per year, reported in 2022. Telecommunications companies received \$233,312.50 in disbursements for ITSAP credits paid to eligible recipients compared to the \$201,731 that was reported in 2022. Disbursements for company administrative costs of the program were \$26,240.65, an increase from the \$24,975 reported in 2022.

Table No. 1: ITSAP Trend of Reported Annual Data

| Years | Year 1: 2018 | Year 2: 2019 | Year 3: 2020 | Year 4: 2021 | Year 5: 2022 | Year 6: 2023 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | | | | | |
| Local Access Lines | Amount | Amount | Amount | Amount | Amount | Amount |
| Residential | 1,525,716 | 1,302,666 | 1,198,146 | 1,003,491 | 976,314 | 902,553 |
| Business | 1,414,148 | 1,288,214 | 888,994 | 964,291 | 769,421 | 672,173 |
| Total | 2,939,864 | 2,590,880 | 2,087,140 | 1,967,782 | 1,745,735 | 1,574,726 |
| | | | | | | |
| Wireless Access | 3,722,983 | 3,651,576 | 2,543,252 | 2,523,243 | 2,797,830 | 1,769,513 |
| Unspecified Access Lines | | | | | | 10,899 |
| Total Lines | 6,662,847 | 6,242,456 | 4,630,392 | 4,491,025 | 4,543,565 | 3,355,138 |
| Credit Recipients | 21,455 | 17,657 | 14,157 | 113,880 | 80,604 | 93,325 |

During 2023, ITSAP reimbursed companies for net monthly discounts provided to eligible subscribers and costs of administering the program, so checks were written in the total amount of \$259,053.45 compared to the \$226,318.89 reported for 2022. The Administrator’s fees and expenses were \$9,152.40 for the year. The fund’s cash balance at the end of the year was reported at \$334,811.90.

2024 BUDGET AND TRENDS

The ITSAP Administrator projects that the funding requirements for 2024 will increase. There have been several new telecommunication companies that have been granted access to participate in the ITSAP program. The Administrator estimates the ITSAP disbursements at approximately \$233,310 and the projected expenses of \$45,441,¹ which is composed of \$9,200 of Administrator salary and estimated bank charges; \$10,000 of 4 years of auditor’s fees; and \$26,241 of program administration costs.

¹ This amount and its breakdowns are shown in the ITSAP Worksheet and Historical Data – Amended, attached to the 2023 Amended ITSAP Annual Report.

To establish the 2024 budget, the Administrator estimates that the number of access lines subject to the surcharge will be approximately 278,686 per month and the average number of ITSAP recipients will amount to approximately 7,777 per month or 93,325 per year. Based on this data, the ITSAP Administrator (Ms. Toohill) projects the funding requirement for 2024 will be approximately \$233,310 and the end-of-year 2024 balance is expected to be \$56,061. This is illustrated in Table 2 below.

Table No. 2: ITSAP FUND - 2024 BUDGET

| | |
|---|-----------|
| CASH BALANCE 1/1/2024 | \$334,812 |
| 2024 INTEREST | 0 |
| 2024 ASSISTANCE CREDITS | \$233,310 |
| 2024 ADMIN EXPENSES | \$45,441 |
| CASH BALANCE 12/31/2024 if no surcharge | \$56,061 |
| 2024 RESERVE BALANCE | 200,000 |
| 2024 SURCHARGE REQUIREMENT | \$143,939 |

ADMINISTRATOR’S 2023 FUNDING RECOMMENDATIONS

The surcharge rate has been suspended for several years; however, the Administrator, Ms. Toohill, recommends that the surcharge rate be reinstated, at this time, at the rate of \$0.07 per access line. Currently, there is \$0.00 per access line and the assistance credit amount of \$2.50 per customer per month, which was introduced by the Idaho Department of Health and Welfare in a 2012 legislation amending Idaho Code §56-902.

Ms. Toohill stated that during 2023, there were significant numbers of credit recipients, from 80,692 in 2022 to 93,325, an increase of 12,633 or approximately 16%. The fund balance decreased by \$268,838.88, or approximately 45%. It started the year on January 1, 2023, with a cash balance of \$603,650.78 and (after checks clearing throughout the year) closed the year on December 31, 2023, with a cash balance of \$334,811.90. Thus, if the numbers of customers, credit recipients, and fund administration costs for 2024 were to mirror 2023—with no surcharge—then the fund balance would be depleted to \$56,061, a balance that will fund about one additional quarter of funding into 2025. This is shown in Table 2 above.

Ms. Toohill represented that, throughout 2023, 278,686 monthly average lines for local and wireless access lines were reported. This means that, “[i]n order to maintain around a \$200,000 fund balance, then a line surcharge would need to be reinstated at a minimum of \$.043 . [sic] This rate would maintain a surcharge closer to about \$200,000, but that is not enough for one year of expenses.” See Amended ITSAP Administrator Report 2023 at 3. Ms. Toohill stated, further, that when evaluating the annual income versus the outgoing expenses, the fund balance would reach about \$290,157, with a \$0.07 surcharge rate per line, and will maintain around a \$200,000 fund balance, at the end of the fiscal year, which is December 31, 2024. Therefore, a line charge of \$0.07 per line would be a recommended and a more stabilizing rate to bring in annual income closer to expected annual expenses, as average annual expenses over the last three years have been about \$255,000.

Ms. Toohill confirmed that the fund balance would prove dangerously low at the end of the year 2024. The estimated balance for the end-of-year 2024 is projected to be \$56,061. This includes 7,777 monthly credit recipients (or 93,324 for the whole year). It also includes the fund’s related administration costs.

STAFF ANALYSIS AND FUNDING RECOMMENDATION

Staff reviewed the 2023 amended annual report of the ITSAP program, the proposed 2024 budget, and the funding recommendation. Staff agrees with the Administrator’s assessment and the proposed 2024 budget. Additionally, Staff supports the Administrator’s recommendation for the reinstatement of the surcharge rates for all wireline and wireless access lines.

However, Staff recommends that the surcharge rate should be reinstated at \$0.05 per access lines rather than the \$0.07 proposed by Ms. Toohill. This is because Staff considers that a yearly gradual change to the surcharge rate after a surcharge suspension would be more appropriate, and the \$0.05 reinstatement rate is a good starting point. The surcharge rate of \$0.05 is projected to generate a fund balance of \$223,237, as of December 31, 2024. This is projected to generate the \$200,000 minimum 2024 year-end balance referred to by Ms. Toohill, as shown in Table 2 above. Staff will be working with Ms. Toohill throughout the year 2024 to monitor the ITSAP fund level closely.

On March 29, 2017, the Commission issued Commission Order 33732 in Case No. GNR-T-17-03 suspending the surcharge rate of \$0.01 per access line. At the time of this suspension, the Administrator’s fees and expenses were \$8,827 for 2016. The Administrator reported a fund cash

balance at the end of 2016 of \$1,354,852—which was the beginning balance on January 1, 2017. The estimated balance for end-of-year 2017 was projected at about \$1,232,771. There was a significant decline in credit recipients which caused the fund to continue growing each year. This is different from this year 2024.

As Table No. 1 above illustrates, there has been a steady and significant increase in credit recipients since 2018. For example, in 2018 the number of credit recipients was 21,455. In 2023 that number had risen to 93,325. This amounts to an increase of 71,870 (or 335%) in credit recipients. This trend is continuing as demonstrated by the current increasing number of telecommunication companies acquiring ETC status in Idaho. This trend is also compounded by the need for Staff to conduct a closer examination of the credit recipients; Staff noted that there is a recipient mentioned in the 2023 Annual Report who receives 70% of the entire ITSAP fund's total disbursement. Staff intends to work with Ms. Toohill to determine the appropriate course of action.

Staff agrees with Ms. Toohill's assessment that, with no surcharge rate, the fund balance will be depleted and will be insufficient to meet the 2024 expenses as well as provide for any unforeseen changes to the number of ITSAP recipients. Thus, Staff recommends that the Commission approve the Administrator's 2024 budget and approve the Administrator's recommendation to reinstate the surcharge rate. Staff considers the appropriate reinstatement surcharge rate to be \$0.05 per access line, effective May 1, 2024, until the next annual budget review.

Additionally, Staff recommends the Commission direct all companies to report access line counts to the Administrator. Staff and the Administrator will continue to monitor the number of recipients and make changes if needed if participation continues to increase.

COMMISSION DECISION

1. Does the Commission wish to accept the 2023 ITSAP annual report and adopt the Administrator's 2024 budget?
2. Does the Commission wish to accept the Administrator's recommendation to reinstate the ITSAP program surcharge rate?
3. Does the Commission wish to adopt the Administrator's recommendation to reinstate the ITSAP program surcharge rate at \$0.07 per access line, effective May 1, 2024, until the next annual budget review?

4. Does the Commission wish to adopt the Staff's recommendation to reinstate the ITSAP program surcharge rate at \$0.05 per access line, effective May 1, 2024, until the next annual budget review?

5. Does the Commission wish to direct all companies to report access line counts to the Administrator?



Johan E. Kalala-Kasanda

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